

## Message Text

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ACTION EA-10

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FM AMEMBASSY KUALA LUMPUR

TO SECSTATE WASHDC 216

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E.O. 11652: N/A

TAGS: EINV, MY

SUBJ: MINISTER OF TRADE AND INDUSTRY EXPLAINS RATIONALE OF  
INDUSTRIAL COORDINATION ACT

1. RESPONDING TO REMARKS OF PRESIDENT OF MALAYSIAN  
INTERNATIONAL CHAMBERS OF COMMERCE AND INDUSTRY AT  
CHAMBERS' ANNUAL LUNCHEON EXPRESSING CONCERN OVER THE  
RECENTLY PASSED INDUSTRIAL COORDINATION ACT, TRADE  
AND INDUSTRY MINISTER HAMZAH MADE THE FOLLOWING STATE-  
MENT:

A. "THE INDUSTRIAL COORDINATION ACT WAS INTRODUCED  
BASICALLY TO ENSURE ORDERLY DEVELOPMENT OF THE MANU-  
FACTURING SECTOR IN MALAYSIA SO THAT WE CAN ERADICATE  
INCIDENCE OF WASTEFUL COMPETITION, EXCESS CAPACITIES  
AND UNECONOMIC ALLOCATION OF RESOURCES. UP TILL NOW,  
THE MINISTRY HAD NOT BEEN IN A POSITION TO ENSURE  
ORDERLY DEVELOPMENT OF THE MANUFACTURING SECTOR BE-  
CAUSE THE ONLY LEGISLATION RELATING TO INDUSTRIAL  
DEVELOPMENT WAS THE INVESTMENT INCENTIVES ACT 1968  
WHICH, HOWEVER, COULD NOT PREVENT THE ESTABLISHMENT

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OF COMPANIES NOT REQUIRING INCENTIVES. UNDER THE

ACT, MY MINISTRY WILL NOW BE ABLE TO COLLECT RELEVANT DATA AND INFORMATION HITHERTO NOT POSSIBLE FOR PROPER AND EFFICIENT INDUSTRIAL DEVELOPMENT PLANNING. IT WILL ALSO REGULARISE THE EXISTING PROCEDURES RELATING TO THE EVALUATION, APPROVAL AND SUPERVISION OF MANUFACTURING PROJECTS.

B. "WITH THE IMPLEMENTATION OF THE INDUSTRIAL COORDINATION ACT, ALL PERSONS OR ENTERPRISES, EXCEPT THOSE EMPLOYING LESS THAN 25 FULL TIME PAID WORKERS OR WHOSE SHAREHOLDERS' FUNDS DO NOT EXCEED DOLS 100,000 WANTING TO ENGAGE IN ANY MANUFACTURING ACTIVITY WILL BE REQUIRED TO OBTAIN A MANUFACTURING LICENSE FROM THE MINISTER OF TRADE AND INDUSTRY. THOSE WHO FAIL TO DO SO WILL BE SUBJECTED TO PENALTIES PRESCRIBED BY THE ACT. IT IS OBVIOUS THEREFORE THAT THIS ACT WILL PROVIDE PROTECTION TO APPROVED PROJECTS AGAINST "ILLEGAL INTRUDERS" IN THE MANUFACTURING SECTOR. RATHER THAN CAUSE CONCERN TO INVESTORS, BOTH FOREIGN AND LOCAL, I DARE SAY THAT THIS ACT WOULD ACT AS A FURTHER INCENTIVE TO INVESTORS."

2. COMMENT: MINISTER HAMZAH'S REMARKS PROVIDE THE FIRST PUBLIC EXPLANATION OF PURPOSE OF ACT, WHICH DOES COVER AN AREA HERETOFORE BEYOND GOVERNMENT'S LEGAL JURISDICTION IN ITS EFFORTS TO CONTROL AND DIRECT DEVELOPMENT OF ECONOMY. THE LAW, WHILE PROVIDING SAFEGUARD AGAINST "ILLEGAL INTRUDERS" ALSO IS APPLICABLE TO EXISTING MANUFACTURING FIRMS, AMONGST WHICH CHINESE FIRMS AND FOREIGN FIRMS WHICH DID NOT GO THROUGH THE FIDA PROCESS ARE VIEWED AS VERY LIKELY CANDIDATES. HOWEVER, LANGUAGE OF THE LAW IS VERY BROAD AND ONLY IN IMPLEMENTATION WILL IT BE REVEALED WHICH MANUFACTURING FIRMS, IF ANY, ARE EXEMPTED FROM ITS PROVISIONS.  
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